

National Fraud Initiative

Non-domestic rates

Pilot Evaluation



 AUDIT SCOTLAND

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Executive summary

1. Non-domestic rates (NDR), also called business rates, are taxes paid on non-domestic properties to help pay for local council services. Businesses can claim relief from NDR through several schemes available to businesses in Scotland, including the Small Business Bonus Scheme (SBBS). There is a risk that businesses may evade rates by claiming discounts/reliefs to which they are not entitled.
2. Looking at how businesses may claim relief through the SBBS to which they are not entitled, there are two ways that fraud is most likely to be committed:
 - failing to declare additional business properties that they occupy elsewhere in Scotland
 - declaring the incorrect rateable value on the application form.
3. It is also possible that a payday lender may incorrectly claim SBBS. These businesses are ineligible to claim SBBS.
4. The aim of this pilot was to use data matching techniques to help identify businesses inappropriately claiming SBBS across a sample of seven council areas.
5. This pilot was undertaken as part of the development of the National Fraud Initiative (NFI). The NFI matches electronic data within and between public and private sector bodies to prevent and detect fraud. Non-domestic rates data is not currently included as part of the NFI.
6. The seven participating councils provided 81,827 ratepayer records which were matched across councils and with data from Companies House in order to identify SBBS fraud. The pilot identified 480 matches which resulted in £412,974 in incorrect awards being identified. The extrapolated value of outcomes for all Scottish councils is £1.9 million. Some system weaknesses were also identified, and recommendations have been issued for improvements where appropriate.
7. The pilot was resourced by revenues and counter-fraud officers from the participating councils, the Audit Scotland NFI team and the Cabinet Office NFI Programme team. The Scottish Government funded the contractor IT development costs of £5,463.
8. Due to the success of this pilot, the Scottish Government may consider a national roll-out of this data matching exercise across all Scottish councils. The Barclay Review¹ recently recommended that the Scottish Government review the effectiveness of the SBBS. The Fraser of Allander Institute is currently carrying out an independent review of the scheme and is expected to publish its report in 2020. Further roll-out of this pilot will be considered by the Scottish Government alongside the Fraser of Allander Institute's findings.

¹ In 2016 the Scottish Government asked Ken Barclay to lead an independent review of non-domestic rates, with a view to reforming Scotland's business rates system to better support growth and long-term investment and reflect changing marketplaces.

Background

Small Business Bonus Scheme

9. Business rates are taxes paid on non-residential properties, most non-domestic properties and some that are mixed use (i.e. mixed residential and business use).
10. The SBBS was introduced on 1 April 2008 to provide NDR relief for small businesses in Scotland. It replaced the Small Business Rates Relief Scheme (SBRRS) and is one of several NDR reliefs offered by the Scottish Government.
11. Scotland's 32 councils administer NDR on behalf of the Scottish Government and retain a proportion of the income from NDR receipts. They are also responsible for administering applications for SBBS relief.
12. The SBBS offers a discount of up to 100 per cent on non-domestic rates bills for eligible properties in Scotland. SBBS relief is awarded based on the rateable value of a property. The rules are based on the total rateable value of a ratepayer's portfolio of business premises, which may cover more than one council area. The following level of relief is available for a property:
 - rateable value up to £15,000 - 100% relief (i.e. no rates payable)
 - rateable value of £15,001 to £18,000 - 25% relief.
13. Ratepayers with more than one business property, and with a combined rateable value of up to £35,000, receive 25 per cent relief on each individual property with a rateable value of under £18,000. For example, in 2019/20, as the poundage² is 49 pence, the SBBS allows ratepayers to save up to £7,350 on a property with a rateable value of £15,000, or a maximum of £4,287 on several properties with rateable values under £18,000 but cumulatively totalling £35,000.

Expenditure on SBBS

14. The number of recipients of the SBBS relief has increased by six per cent in the latest year, from 113,940 in 2018 to 120,420 in 2019. The SBBS provided £266 million in relief in 2019, an increase of £18 million from £248 million in 2018. This amounts to an average saving per property of just over £2,200 in 2019.
15. The number of properties receiving SBBS relief over the last eleven years, since the scheme was introduced, has increased by over 88 per cent, from 64,180 in 2008 to 120,420 in 2019.

² The amount of NDR paid is calculated by multiplying the property's rateable value by a pence in the pound tax rate known as the poundage.

The pilot

The potential fraud problem

16. Current council processes do not consistently and accurately identify a change of circumstance, multiple business premises or new business premises. Any one of these may directly impact the NDR revenue of a council. Reliefs could therefore be awarded where businesses are not entitled to them.
17. SBBS relief may be awarded to a business across multiple council areas and where its property portfolio is above the permitted rateable value thresholds. There is currently no central process for identifying such multiple reliefs.
18. Some councils carry out a review of their SBBS cases although this is not consistent. For example, Stirling Council's NDR team has a rolling programme to review various reliefs including SBBS. However, as the team is very small this is only scheduled for detailed review every three years.
19. Businesses may evade paying the correct amount of NDR by claiming relief through the SBBS to which they are not entitled. There are two ways that they fraud is most likely to be committed:
 - failing to declare additional business properties occupied in Scotland on the application to a council
 - declaring the incorrect rateable value of the application form.
20. It is also possible that a payday lender may incorrectly claim SBBS. These businesses are ineligible to claim SBBS.
21. This pilot aimed to use data matching techniques to help identify businesses inappropriately claiming SBBS. Seven councils volunteered to participate in the pilot: Angus, Comhairle nan Eilean Siar, East Dunbartonshire, Fife, Glasgow City, Highland and Stirling. We are very grateful to these councils for volunteering to participate in this pilot.

Data used in the pilot

22. For the pilot, 81,827 NDR records from the seven councils were matched with the aim of identifying fraud related to NDR SBBS. Potential fraud was identified by:
 - matches showing a business is claiming multiple SBBS over the £35,000 rateable value threshold. Or alternatively, where the individual rateable value of one or more of the business premises is above the £18,000 rateable value threshold.
 - matching NDR to Companies House data to identify potential additional premises occupied by businesses.
 23. Business rates data included: property details, liable person details (basic personal information: name, address, date of birth, national insurance number) and bank account details, where available.
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24. Data matching was then carried out on this data to identify if matching these datasets can uncover fraud in SBBS.

Funding of the pilot

25. The pilot was resourced by revenues and counter-fraud officers from the participating councils, the Audit Scotland NFI team and the Cabinet Office NFI Programme team.
26. The Scottish Government funded the contractor IT development costs (Synectics Solutions) for this pilot at a cost of £5,463.
27. Councils were not charged a fee and funded their own staff costs. Councils were responsible for following through actions emerging from the matches.

Success factors

28. The key milestones of the pilot were:
 - the extraction and submission of NDR records to the NFI system
 - the release of 480 matches to councils
 - the review and evaluation of matches to help identify fraud and overpayments
 - the extrapolation of results to estimate the potential value of extending the matching exercise to all Scottish councils' SBBS data.

Pilot risks

29. The key risks in undertaking this pilot along with mitigating actions are as follows:
 - legal/regulatory restrictions- a review of legislative and governance arrangements for this pilot was undertaken by Audit Scotland and the participating councils
 - a lack of adequate resources in councils - all participating councils confirmed in advance that resources would be available to meet pilot deadlines
 - poor data quality- participating councils were issued with data specifications for the pilot and confirmed in advance that the relevant data was available
 - timing issues with data- all participating councils confirmed in advance that resources would be available to meet pilot deadlines
 - false positive matches-the data specification included data fields for bank account details to help avoid different companies with similar names being identified as a match
 - the NFI IT system going down and/or users unable to access the system - Synectic Solutions has resilience processes built into the NFI system. It is a web-based application and available to anyone able to access the internet
 - the data security standards may not be sufficient - the NFI system has undergone accreditation against HMG Information Assurance Standard.

Results

Methodology

30. Seven councils submitted data via the secure direct file upload facility on the NFI website and received their matches back in a spreadsheet made available through the secure NFI website.

Data matching

31. A total of 81,827 records provided by the seven pilot councils produced 480 matches, giving an overall match return rate of 0.59 per cent.
32. The matches were identified from data provided from within the one council (eg a ratepayer having two premises in the same council area), as well as matches identified from data provided from more than one council (eg a ratepayer having premises in more than one council area).
33. Bank account details were not available for all ratepayers. Only 11 per cent of ratepayer records contained bank details.
34. A more in-depth look at the seven participating councils' matches is provided in [Exhibit 1](#).

Exhibit 1. Analysis of data submitted, and matches identified

| Council | No. of records provided for matching & resulting matches | No. of matches identified between different councils | No. of matches identified within the same council | No. of records used for bank account match | No. of bank account matches identified between different councils | No. of bank account matches identified within the same council |
|---------------------------|--|--|---|--|---|--|
| Angus | 5469 records 67 matches (1.2%) | 9 | 43 | 685 | 2 | 13 |
| Comhairle nan Eilean Siar | 2808 records 28 matches (1%) | 2 | 20 | 189 | 0 | 6 |
| East Dunbartonshire | 2449 records 39 matches (1.6%) | 35 | 4 | 0 | 0 | 0 |

| Council | No. of records provided for matching & resulting matches | No. of matches identified between different councils | No. of matches identified within the same council | No. of records used for bank account match | No. of bank account matches identified between different councils | No. of bank account matches identified within the same council |
|--------------|---|--|---|--|---|--|
| Fife | 14403 records 0 matches | 0 | 0 | 3005 | 0 | 0 |
| Glasgow City | 28150 records 286 matches (1%) | 26 | 253 | 616 | 0 | 7 |
| Highland | 6087 records 0 matches | 0 | 0 | 484 | 0 | 0 |
| Stirling | 22461 records 60 matches (0.27%) | 9 | 44 | 4462 | 0 | 7 |
| Total | 81,827 records 480 matches (0.59%) | 81 matches | 364 matches | 9,441 records | 2 matches | 33 matches |

Fraud and error identified

35. Overall, 81,827 records from seven councils identified 480 matches with £412,973.86 in incorrect awards of SBBS. This gives an average incorrect SBBS relief of £58,996 per participating council.
36. If results were extrapolated across Scotland's 32 councils at £58,996 each, a return of £1.9 million could be potentially anticipated.
37. Councils which recorded outcomes have considered whether the errors identified through the matching process was an error or indeed intentional fraud (which is difficult to prove). Where the council took the view that the incorrect SBBS award was due to an error, they have taken the outcome as either the current year underpayment or the current year underpayment of

rates plus the previous year's underpayment. They have referred to the Local Government (Scotland) Act 1975 (Section 11) for guidance.

38. Where a council was of the view that the ratepayer knew they were not entitled to the full SBBS awarded, they have taken the outcome as the value of underpaid rates going back to the date the SBBS was initially incorrect.

39. The Local Government (Scotland) Act 1975 (Section 11) says that:

The rating authority may, at any time before the expiration of one year after the end of the year in respect of which any rate is levied, amend the assessment roll by inserting therein the name of any person who ought to have been entered therein as liable in the rate or who since the making up of the roll has become so liable, or by striking out the name of any person who according to a written certificate by the assessor under the Valuation Acts ought not to have been so entered, or by correcting the amount of any value or rate which may have been inaccurately entered, and any such amendment shall not vitiate or render it less operative.

40. Exhibit 2 shows the outcome for each participating council.

Exhibit 2. Outcomes

| Council | Company name matched between councils | Company name matched within a council | Bank details matched between councils | Bank details matched within a council | Comments on calculation of outcomes |
|---------------------------|--|--|---------------------------------------|---------------------------------------|---|
| Angus | 9 matches 0 outcomes | 23 matches 4 outcome cases £10,924.23 | 1 match 0 outcome | 9 matches 0 outcomes | Taken back to 1.4.19 |
| Comhairle nan Eilean Siar | 2 matches 0 outcomes | 20 Matches 0 outcomes | - | 6 matches 0 outcomes | |
| East Dunbartonshire | 35 matches 29 outcome cases £246,316 | 4 matches 0 outcomes (one match also included in between council outcomes) | - | - | Taken back to date incorrect SBBS first awarded |

| Council | Company name matched between councils | Company name matched within a council | Bank details matched between councils | Bank details matched within a council | Comments on calculation of outcomes |
|--------------|---------------------------------------|--|---------------------------------------|---------------------------------------|---|
| Fife | No matches | | | | |
| Glasgow City | 26 matches 2 outcomes £17,219 | 253 matches 18 outcome cases £133,326.80 | - | - | Taken back to 1.4.18 |
| Highland | No matches | | | | |
| Stirling | 9 matches 0 outcomes | 44 matches 2 outcomes £5177.84 | - | 7 matches 0 outcomes | Taken back to the start of the incorrect SBBS award |
| TOTAL | 31 outcomes £263,535 | 24 outcomes £149,438.87 | 0 outcomes | 0 outcomes | |

41. The largest number and value outcomes come from matching business ratepayers within the same council area. The matching between council areas appears to be more successful in identifying outcomes in bordering council areas, for example, between Glasgow City Council and East Dunbartonshire Council.
42. Matching bank details did not provide any outcomes; however, bank details were only available for 11 per cent of ratepayers.
43. Councils which did not receive outcomes have got some assurance about the SBBS relief they have provided as well as being able to update their system. For example, Comhairle nan Eilean Siar reported that the NDR system had been improved to link three previously unlinked properties belonging to the same ratepayer.
44. During the pilot exercise the following weaknesses within the SBBS administration were identified:
 - applicants are not required to provide any personal details e.g. date of birth, home address. This results in problems when establishing if a person liable for rates is also liable at another address. If personal details were obtained this would allow for comprehensive data matching to be undertaken. Data matching would also be easier where councils record names of individuals in the same format.
 - there are limited processes to verify the accuracy of applications. If a central database of all SBBS awards was in place and available to all councils, a check could be made to verify applicants' details prior to any award of SBBS being made.

- there is no process to ensure that applicants have authority to act on behalf of the person/company liable for NDR. The administration of SBBS and data matching would be simpler for cases
 - where the liability is held by an individual person, if applications can be only be made by that person
 - where a liability is held in a non-limited company, if the applicant was requested to demonstrate that they are authorised to submit such applications
 - where the liability is held in the name of a limited company, if applications were only be made by the registered Director/Secretary and the company number recorded.
 - The majority of applications only ask the applicant to list all premises for which they are liable for NDR. A more direct question may get better information from the applicant e.g. “Is the person/company liable for NDR also responsible for NDR at any other property in Scotland, whether occupied or not?” with a simple yes or no answer which the council follows up if appropriate.
 - If an applicant is requesting that an award of SBBS is backdated the application form fails to establish if they have been liable for NDR for any other premises from the date that they wish the award backdated.
 - There is no legislative requirement for an applicant to notify the authority of a change of circumstances once an award of SBBS has been made.
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